

AN ASSESSMENT OF INTERNAL CONTROL OVER RECEIVABLES IN THE CASE OF EQUATORIAL BUSINESS GROUP

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Table of Content

Acknowledgment.....	
Table of content.....	
List of tables and figures.....	IV
Chapter One	
1 Introduction.....	1
1.1 Background of the Study.....	1
1.2 Statement of the Study.....	2
1.2.1 Basic Research Questions.....	2
1.3 Objectives of the Study.....	3
1.3.1 General Objective.....	3
1.3.2 Specific Objective.....	3
1.4 Significance of the Study.....	3&4
1.5 Delimitation of the Study / Scope/.....	4
1.6 Limitation of the Study.....	4
1.7 Organization of the Study.....	4
1.8 Research Design &Methodology.....	5
1.8.1 Data Sources.....	5
1.8.2 Population Size & Sampling Technique.....	5
1.8.3 Method of Data Analysis.....	5
Chapter Two	
2 Review of related Literature.....	6
2.1 Definition and Classification of Receivables _.....	6
2.1.1 Definition of Receivables.....	6
2.2 Accounts Receivables.....	7
2.2.1 Accounting for Accounts Receivables.....	8
2.2.2 Measuring Accounts Receivable.....	8
2.2.2.1 Trade discounts.....	8
2.2.2.2 Cash discounts.....	9
2.2.2.3 Gross and Net Method.....	9
2.2.2.3.1 Gross method.....	10
2.2.2.3.2 Net method.....	11
2.2.2.4 Allowance for freight out.....	11
2.2.2.5 Sales and excise taxes.....	11
2.2.2.5.1 Sales Taxes.....	11
2.2.2.5.2 Excise Taxes.....	12
2.2.3 Valuation of accounts receivables.....	12
2.2.4 Use of Accounts receivable as a source of cash.....	13
2.2.5 Factoring Accountreceivable.....	13
2.3 Notes Receivable.....	14
2.3.1 Accounting for notes receivable.....	14

2.3.2	Characteristics of notes receivable.....	15
2.3.3	Discounting note receivable.....	16
2.3.4	Control over receivables.....	16
2.3.5	Aging schedules.....	17
2.4	Other receivables.....	18
2.5	Accounting for uncollectible.....	18
2.5.1	Uncollectible receivables.....	18
2.5.2	Measurement of uncollectible accounts receivable.....	19
2.5.2.1	Direct write off method.....	19
2.5.2.2	Writing off a bad debt.....	19
2.6	Problem usually reflected in receivable management.....	19
2.6.1	Invoicing system problems.....	20
2.6.2	An overworked or undertrained staff.....	20
2.6.3	Changes in payer rules.....	20
2.6.4	Nonstandard practices and inefficiency.....	20
2.6.5	Lack of management knowledge.....	21
2.6.6	Accounts receivable follow up.....	21
2.6.7	Poor Quality of information.....	21
2.6.8	Electronic processes.....	22
2.7	What to do protect unexpected failure for Receivable management.....	22

Chapter three

3.	Data presentation and analysis.....	24
3.1	Data presentation and analysis.....	24
3.2	Analysis of questionnaire.....	24
3.2.2	Reasons for un collectability.....	31
3.2.3	Techniques used by EBG plc.....	31
3.2.4	Account receivables turnover.....	32
3.2.5	Average collection period.....	33
3.3	Major Findings.....	34

Chapter four

4.	Summery conclusion and recommendation.....	35
4.1	Summery.....	35
4.2	Conclusion.....	35
4.3	Recommendation.....	36

Bibliography

Appendix

List of tables and figures

Tables

Table 1 Personal profile of the respondents.....	25
Table 2 Internal control over receivables.....	26
Table 3 Collection department.....	27
Table 4 Communicate or contact.....	27
Table 5 Credit limit.....	28
Table 6 Credit or agreement.....	28
Table 7 Statement of account receivable.....	29
Table 8 Account receivable aging.....	29
Table 9 Assess credit customers.....	29
Table 10 Take a sort of action.....	30
Table 11 Change to promissory notes.....	30
Table 12 Follow up to write off.....	31
Table 13 Account receivable Ratio.....	32
Table 14 Average collection period.....	33

Figures

Figure 1	32
Figure 2.....	33

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Declaration

We the undersigned declare that this senior essay project is our original work, prepared under the guidance of Ato Fisium. All sources of materials used for the manuscript have been duly acknowledged

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

This study concerned on Internal Control over Receivable. To control receivable account 1st we have to get good understanding what receivable is?

Receivable account includes all money claims against people organization or other debtors. Receivables are acquired by a business enterprise is various kind of transacting, the most common being the sale of merchandise or services on a credit basis. (Niswonger and Fee 1965:224)

Accounting term for amount due from customer employee, supplier or any other part, Receivables are classified as account receivable, note receivable etc and represent an asset of the firm. So to control this receivable account people org or creditors use different methods. (Wild Larson and Chiappette 2008:354)

T Note receivable frequently referred to as a note, is a written form pay a sum of money on demand or at a definite time.

T The control would include the separation of the business operations & the accounting for receivables, so that the accounting records can serve as an independent check on operations. Thus employee who handles the accounting for notes & accounts receivable should not be involved with credit approvals or collection of receivables. Separation of the function reduces the possibility of errors & embezzlement.

T Record the receivable account an aging of trade account receivable.

The possible non collectability of receivable is an example of a loss contingency because a future event (inability of collection) confirming the loss is probable and the amount of the loss can be reasonable estimated. (Wild Larson and Chiappette 2008:354)

1.2 Statement of Problem

The need for this study is in order to recognize the problem and give alternative solution on the dalliance of receivable account because of credit policy, weak receivable management and analyze the receivable problem in Equatorial Business Group. As the employee of the organization, the researchers have observed the above mentioned problems!

The company finance department is not report the receivable account periodically to the manager; because of un applicability of credit policy and procedures, week responsible department to follow-up the collection, un recognize expense on loss contingency on failure to collect, statements of accounts strictly not sent to debtors, the need for this study is in order to find out the collections problem of the company and the absence of reconciliation between company record and customers' records.

1.2.1 Basic Research Questions

These researches try to answer the following questions.

1. Does the company have responsible department that follows-up the credit collection and prepared statement of account receivable and sent to debtors?
2. Does the company have specific credit policy procedure or agreement to control customers that do not pay according to their agreement?
3. Is the company have clear data base for customers to properly evaluate there liquidity and business efficiency.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study is to establish timely collection and internal control system of an account receivable in Equatorial Business Group.

1.3.2 Specific Objectives

- I- To appraise whether the company has a well established department that follows-up and account receivable internal control system.
- I- If the company has a credit policy, to evaluate that the application of credit policy to the credit customers.
- I- To assess that the company sent an account receivable statement
- I- To review that whether the company collect timely from it's credit customers according to their agreement.
- I- To review whether the company contact with past due customers as a valuation for cash management tool and current realizable value of the receivable.
- I- To assess that the company uses the note to make the loan more formal and enforceable.

1.4 Significance of the Study

To researchers

- I- It gives knowledge and experience how to make research
- I- Fulfillment of bachelor degree
- I- Good understanding on receivable management in practice
- I- It gives communication skill

To the company

- I- To identify the weakness and strength of receivable management in Equatorial Business Group.
- I- It gives sufficient information to the management of the company.
- I- It creates better receivable management and credit policy to the company.
- I- Make smooth relation between the company and its customers.
- I- Avoid cash shortage and save the company from doubtful account.

1.5 Delimitation of the Study / Scope of the Study

Equatorial Business Group has five branches other than the head office. However, the research focuses on receivables and the internal control system over receivables in Equatorial Business Group finance department since 2009G.C up to 2013 G.C only, this makes boundary for the research and manageable in size.

1.6 Limitation of the Study

During the study lack of time is a basic problem for gathering data because the researchers are full time employees, getting enough reference materials and compromise is so difficult. Individuals Unwillingness' to give information and fill our research question.

1.7 Organization of the Study

The study consists of four chapters: The first chapter is the Introductory part consisting of the following topics; Background of the study, Statement of the Problem, Objective of the Study, Significance of the Study, Delimitation of the Study /scope of the study/, Limitation of the Study, Definition of the Study, Organization of the Study and Methodology and Data Analysis. Review of related literature is presented in chapter two. In the third chapter the Data Collected through Interview,

Questionnaire and Internal Records in written form will be analyzed and interpreted.

The last chapter of the study is summary, conclusion and recommendation part forwarded in accordance with the findings and related literature discovered and the theoretical part analyzed. List of reference that helps this study to perform the literature review of questionnaires will be presented at the last page of the book.

1.8 Research Design & Methodology

1.8.1 Data Sources

This study focuses on the Account Receivables in the case of Equatorial Business Group, personal observations and questionnaires have been used.

This studies use Questionnaire & Observation (one of the group member work there) methods. This is basically focused on the Finance Department staffs.

The method of the data collection in primary data would be collected schedule method by questioner.

On the secondary data collection the research use the company published & unpublished private documents and financial policy manual.

1.8.2 Population Size & Sampling Technique

This research use sensuous method, because of the small number of population of the finance department of the Equatorial Business Group.

1.8.3 Method of data analysis

The data collected through different data collection mechanisms are by using percentage tables and descriptive qualitative tools & techniques.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Definition and Classification of Receivables

2.1.1. Definition of Receivables

The receivable that results from sales on account are normally accounts receivables or notes receivable. The term receivables includes all money claims against other entities, including people, companies, and others organizations. Receivables are usually a significant portion of the total current assets.

(stice, stice and diamond 2003:308)

The term receivable includes all money claims against individuals, organization, or other debtors. They are acquired by a business enterprise in various types of transactions, the most common being the sale of merchandise or services on a credit basis. Account and notes receivable originating from sales transactions are sometimes referred to as trade receivables. In the absence of other descriptive words or phrases, accounts and not receivable may be assumed to have originated from sales in the usual course of the business. *(Niswonger and fess 1965:224)*

Receivables are monetary claims against business and individuals. The two major types of receivables are accounts receivable and note receivable. A business's accounts receivables are the amount to be collected from customers. *(Honrngren 2005:362)*

A receivable is an amount due from another party. The two most common receivables are account receivable and notes receivables. Other receivables include interest receivable, rent receivable, tax refund receivable, and receivables from employees. *(Wild, Larson and Chiappette 2008:354)*

Account receivables are amounts due from customers for credit sales. This

section begins by describing how accounts receivable occur. It includes receivables that occur when customers use credit cards issued by third parties and when a company gives credit directly to customers. When a company does extend credit directly to customers.

1. Maintains a separate account receivable for each customer and
2. Accounts for bad debts from credit sales.

(wild, Larson and chiappetta 2008:354)

Receivables represent claims for money, goods, services and other non cash assets from other firms. Receivables may be current or non current, depending on the expected collection data. Accounts receivable are often supported only by a sales invoice. Notes receivables are usually supported by formal promissory notes. Trade receivables describe amounts owed the company for goods and services sold in the normal course of business. Non trade receivables arise from many other sources, such as tax refunds, contracts, investees, finance receivables, installment notes, sale of assets, and advances to employees. The main accounting issues pertaining to receivable are recognition and valuation. Both are affected by collectability. *(Dyckman, Dukes and Davis 1995:326)*

Account receivable, which are current assets are also called trade receivables. Account receivable in the general ledger serves as control account b/c it summarize the total the receivables from all customers.

The most common transaction creating a receivable is selling merchandise or service on account (on credit). The receivable is recorded as a debit to account receivable. Such accounts receivable are normally collected within a short period, such as 30 or 60 days. They are classified on the balance sheet as a current asset. *(Dyckman, Dukes and Davis 1995:326)*

Accounts receivable are recognized only when the criteria for recognition are fulfilled. They are valued at the original exchange price between the firm and the outside party. Less adjustment for cash discounts Sales returns and allowances. Trade discounts and uncollectible accounts yielding an approximation to net realizable value, the amount of cash expected to be collected. (www.itepnet.org)

2.2.2.1 Trade discounts

Trade discount is the discount that is deducted from the source and then the actual amount is shown. The trade discounts are not shown in the books of accounts. The trade discount will be deducted from the actual and the net amount will be considered.

Product catalogs often provide a *list price* for an item. Those list prices may bear little relation to the actual selling price. A merchant may offer customers a trade discount that involves a reduction from list price. Ultimately, the purchaser is responsible for the invoice price, that is, the list price less the applicable trade discount. Trade discounts are not entered in the accounting records. They are not considered to be a part of the sale because the exchange agreement was based on the reduced price.

Remember the general rule that sales are recorded when an exchange takes place. The measurement of the sale is based on the exchange price. Therefore, the amount recorded as a sale is the invoice price.

Typically a single invoice price for a product is published. Then, several different discounts may apply depending on customer type and quantity ordered. These trade discounts reduce the final sales price and are not affected by data of payment.

For accounting purposes, the listed invoice price less the trade discount is treated as the gross price to which cash discounts apply. Trade discounts are not accounted for separately, but rather help define the invoice price.
(www.itepnet.org)

2.2.2.2 Cash Discounts

Companies frequently offer a cash discount for payment received within a designated period. Cash discounts are used to increase sales, to encourage early payment by the customer, and to increase the likelihood of collection.

The incentive to pay within the discount period is generally significant although in percentage terms this does not always appear to be the case.

An incentive that a seller offers to a buyer in return for paying a bill owed before the scheduled due date. The seller will usually reduce the amount owed by the buyer by a small percentage or a set dollar amount. If used properly, cash discounts improve the days-sales-outstanding aspect of a business's cash conversion cycle.

Merchants often sell to other businesses. Assume that Barber Shop Supply Company sells equipment and supplies to various barber shops on open account. An open account is a standing agreement to extend credit for purchases. In these settings, the seller would like to be paid promptly after billing and may encourage prompt payment by offering a cash discount.

(www.itepnet.org)

2.2.2.3 Gross and Net Methods

In evaluating the gross and net methods, notice that the Purchase Discounts Lost account (used only with the net method) indicates the total amount of discounts missed during a particular period. The presence of this account draws attention to the fact that discounts are not being taken; frequently an unfavorable situation. The Purchase Discounts account (used only with the

gross method) identifies the amount of discounts taken, but does not indicate if any discounts were missed. For reporting purposes, purchases discounts are subtracted from purchases to arrive at net purchases, while purchases discounts lost are recorded as an expense following the gross profit number for a particular period.

Gross refers to the total and Net refers to the part of the total that really matters. For example, net income for a business is the profit after all expenses, overheads, taxes and interest payments are deducted from the gross income. Similarly, gross Weight refers to the total weight of the goods and the container and packaging. On the other hand, net weight refers to only the weight of the goods in question. For most food products, manufacturers print the net weight on the packaging for the benefit of consumers. (www.practicesupport.com)

2.2.2.3.1 Gross Method

A fundamental accounting issue is to account for purchase transactions when discounts are offered. One technique is the gross method of recording purchases. This technique records purchases at their total gross or full invoice amount:

The gross method of accounting is a specific set of guidelines for estimating an ending inventory balance. Accountants prefer the term gross margin method of accounting as it's more specific about the process, which includes four steps necessary to compute ending inventory. The task is often part of the larger inventory accounting process. (www.practicesupport.com)

2.2.2.3.2 Net Method

Rather than recording purchases under the gross method, a company may elect to record the purchase and payment under a *net method*. With this technique, the initial purchase is again recorded by debiting Purchases and crediting Accounts Payable. However, the amount of the entry is for the invoice amount of the purchase, less the anticipated discount. Assuming the company

intends to take the discount, this entry results in recording the net anticipated payment into the accounts. (www.oracticesuDDort.com)

2.2.2.4 Allowance for Freight Out

A potentially significant inventory-related cost pertains to freight. The importance of considering this cost in any business transaction cannot be overstated. The globalization of commerce, rising energy costs, and the increasing use of overnight delivery via more expensive air transportation all contribute to high freight costs. Freight costs can easily exceed 10% of the value of a transaction. As a result, business negotiations relate not only to matters of product cost, but must also include consideration of freight terms.

Freight agreements are often described by abbreviations that describe the place of delivery, when the risk of loss shifts from the seller to the buyer, and who is to be responsible for the cost of shipping. One very popular abbreviation is F.O.B. This abbreviation stands for "free on board." Its historical origin related to a seller's duty to place goods on a shipping vessel without charge to the buyer. (www.oracticesuDDort.com)

2.2.2.5 Sales and Excise Taxes

Sales and excise taxes, or consumption taxes, are an important revenue source, comprising close to half of all state tax revenues. These taxes often considered "hidden" to consumers since they're spread out over many purchases rather than paid in one lump sum. (www.itepnet.org)

2.2.2.5.1 Sales Taxes

The Apply to items we purchase every day, including goods (such as furniture and automobiles) and services (such as car repairs and dry cleaning). To compute the sales tax on a taxable item, the cost of the item is multiplied by the tax rate. In theory, the sales tax applies to all retail transactions or sales to the final consumer. (www.itepnet.org)

2.2.2.5.2 Excise Taxes

The sales taxes that apply to particular products. Compared to income, property, and general sales taxes, excise taxes constitute a fairly small portion of state revenues.

This is because excise taxes lack a broad base, and are instead levied on only a few specific products typically tobacco, alcohol, and gasoline. In part because of its narrow base, the tobacco tax in particular has become a popular source of revenue even among politicians that are generally opposed to raising taxes though health concerns have also contributed to this popularity, (www.itepnet.org).

Excise taxes are usually applied on a per-unit basis instead of as a percentage of the purchase price. For instance, cigarette excise taxes are calculated in cents per pack. And most gasoline excise taxes are imposed in cents per gallon. Because excise taxes are generally not itemized on consumer receipts, they tend to be even less visible than general sales taxes. Nonetheless, while most states levy general sales taxes, every state levies excise taxes on tobacco, alcohol, and gasoline. (www.itepnet.org)

2.2.3. Valuation of Accounts Receivables

The value of accounts receivable is generally established based on the age and activity of the account. There are various formulas that can be applied which will give an estimate. However, without analyzing each account individually, the possibility of collection can vary a great deal. The most precise method would entail an extensive review of payer categories, current claim status of accounts and a review of adjustments involved. This group does not wish to provide this breakdown, and rarely is this performed as there is no real conclusive way to know that is actually going to be collected from all outstanding charges. (www.practicesupport.com)

When a company directly grants credit to its customer, it expects that some customers will not pay what they promised. The accounts of these customers are uncollectible account, commonly called bad debts. The total amount of uncollectible accounts is an expense of selling on credit.

Why do companies sell on credit if they expect some accounts to be uncollectible? The answer is that companies believe that granting credit will increase total sales and net income enough to offset bad debts. Companies use two methods to account for uncollectible account.

1. Direct write-off method and
2. Allowance method (www.practicesupport.com)

2.2.4. Use of Accounts Receivable as a Source of Cash

In the middle of this recession, your small business may be hurting for cash. It's hard to get conventional loans because money is tight and banks aren't loaning without significant collateral. If you extend credit to your customers and have accounts receivable on your books, then you have a source of collateral right there.

You can go to your bank or to a commercial finance company. Put a list of your credit customers together and take it with you. You may very well be able to get a loan with your accounts receivable as collateral, which is called pledging accounts receivable. It's only one method of accounts receivable financing. The commercial finance company may be the better choice. (*Carls, James and Jonathan 2005:300*)

2.2.5. Factoring Account Receivable

Accounts receivables factoring, or Factoring is the selling of the business's accounts receivable to a factoring company. The factoring company (factor) pays the business a percentage of the value of the accounts receivable and deducts a fee for the cost of collections. Then the factor collects the receivables. One way to look at factoring is that a business is outsourcing its receivables collections process. ([Jean Murray](#))

2.3. Notes Receivable

2.3.1. Accounting for Notes Receivable

Notes receivable are more formal than accounts receivable the debtor promises in writing to pay the creditor a definite sum at a future date the maturity date.

A written document known as a promissory note serves as the evidence. Notes receivable due within one year or less are current assets. Notes due beyond one year are long term some notes receivable are collected in periodic installments. The portion due within one year is current asset and the remainder is a long term asset. *(Carls W, James M and Jonathan E 2009:308)*

Notes receivables are amounts that customers owe for which a formal, written instrument of credit has been issued. If notes receivable are expected to be collected within a year, they are classified on the balance sheet as current assets. Notes are often used for credit periods of more than 60 days. For example, an automobile dealer may require a down payment at the time of sales and accept a note or a series of notes for the remainder. Such notes usually provide for monthly payments. Notes may also be used to settle a customer account receivable. Notes and accounts receivable that result from sales transactions are sometimes called trade receivables.

(Warren reeve fee 2005:318)

Notes receivable are amounts that customers owe, for which a formal, written instrument of credit has been issued. As long as notes receivable are expected to be collected within a year, they are normally classified on the balance sheet as a current asset.

Notes are often used for credit periods of more than sixty days. For example, a dealer in automobiles or furniture may require a down payment at the time of sale and accept a note or a series of notes for the remainder such arrangements usually provide for monthly payments.

Notes may be used to settle a customer's account receivable. Notes and accounts receivable that result from sales transactions are sometimes called trade receivable. (*Carls W, James M and Jonathan E 2009:308*)

2.3.2. Characteristics of Notes Receivable

A claim supported by a note has some advantages over a claim in the form of an account receivable. By signing a note, the debtor recognizes the debt and agrees to pay it according to the terms listed. A note is therefore a stronger legal claim if there is a court action. (*Dyckman, Dukes and Davis 1995:326*)

Due Date

Some notes specify the maturity date other notes state the period of the note in days or months when the period is given in the month the note's maturity date falls on the same day of the month.

The date a note is to be paid is called the due date or maturity date. The period of time between the issuance date and the due date of a short term note may be stated in either days or months. When the term of note is stated in days, the due date is the specified no of days after its issuance. The term of a note may be stated as a certain no of month after the issuance date in such cases the due date is determined by counting the number of months from the issuance date. (*Warren 2005:326*)

Promissory Note

It is a written promise to pay a sum of money on demand or at a definite time. It is payable to the order of a person or firm or to the bearer or holder of the note. It is signed by the person or firm that makes the promise. The one to whose order the notes is payable is called the payee, and the one making the promise is called the maker. (*warren 2005:326-327*)

Interest

A note normally specifies that interest be paid for the period b/n the issuance date and the due date. Notes covering a period of time longer than one year

normally provide that the interest be paid semiannually, quarterly, or at some other stated interval. When the term of the note is less than one year, the interest is usually payable on the due date of the notes. (Warren 2005:328)

2.3.3 Discounting note receivable

A company may endorse note receivable and transfer it to a bank in return for cash. This is called discounting notes receivable. The bank pays cash (the proceeds) to the company after deducting a discount (interest). The discount is computed using a discount rate on the maturity value of the note for the discount period. The discount period is the time that the bank must hold the note before it becomes due (*Carls, James and Jonathan 2005:326*)

2.3.4 Control over Receivables

Controls over accounts receivable really begin with the initial creation of a customer invoice, since you must minimize several issues during the creation of accounts receivable before you can have a comprehensive set of controls over this key asset. Controls then span the proper maintenance of accounts receivable, and their elimination through either payments from customers or the generation of credit memos.

A control account is a summary account in the general ledger. The details that support the balance in the summary account are contained in a subsidiary ledger, a ledger outside of the general ledger.

The purpose of the control account is to keep the general ledger free of details, yet have the correct balance for the financial statements. For example, the Accounts receivable account in the general ledger could be a control account. If it were a control account, the company would merely update the account with a few amounts, such as total collections for the day, total sales on account for the day, total returns and allowances for the day.

The details on each customer and each transaction would not be recorded in the accounts receivable control account in the general ledger. Rather, these

details of the accounts receivable activity will be in the accounts receivable subsidiary ledger. This works well because the employees working with the general ledger probably do not need to see the details for every sale or every collection transaction. However, the sales manager and the credit manager will need to know detailed information on individual customers, including whether a customer recently reduced their account balance. The company can provide these individuals with access to the accounts receivable subsidiary ledger and can keep the general ledger free of a tremendous amount of detail.
(www.accountingtools.com)

2.3.5. Aging Schedules

Both the income statement approach and the simplified balance sheet approach use knowledge gained from past experience to estimate the amount of bad debts expense. Another balance sheet approach produces a more refined estimate based on past experience and on information about current conditions.

This method involves aging of accounts receivable under this method, each account receivable is examined in the process of estimating the amount that is uncollectible. Specifically the receivables are classified by how long they have been out standing. Then, estimates of uncollectible amount are made under the assumption that the longer an amount is outstanding, the more likely it will be uncollectible. *(Kermit 1997:285)*

An alternative bad debt estimation technique takes advantage of the information gathered through cash collections made between the time of the credit sales and the end of the period. this technique, called the aging method, involves examining the accounts still unpaid at the end of the year, looking to see whether the accounts are post due and by how much and directly estimating how much of those account will ultimately be uncollectible.

(Stice, stice and diamond 2003:343)

2.4. Other receivables

Other receivables are normally listed separately on the balanced sheet. If they are expected to be collected within one year, they are classified as current assets. If collection is expected beyond one year, they are classified as non current assets and reported under the caption investments. Other receivables include interest receivable, taxes receivable and receivables from officers or employees.

Other receivables include interest receivable, taxes receivable, and receivables from officers or employees. Other receivables are normally reported separately on the balance sheet. If they are expected to be collected within one year, they are classified as current assets. If collection is expected beyond one year, they are classified as non current assets and reported under the caption investment.

(warren 2005:318)

2.5. Accounting for Uncollectible

2.5.1. Uncollectible Receivables

Businesses attempt to limit the number and amount of uncollectible receivables by using various controls. The primary controls in this area involve the credit granting function. These controls normally involve investigating customer credit worthiness, using references and background checks. For example, most of us have completed credit application forms requiring such information companies may also impose credit limits on new customers. Once a receivable is past due, companies should use procedures to maximize the collection of an account after repeated attempts at collection, such procedures may include turning an account over to a collection agency companies often. Sell their receivables to other companies. This transaction is called factoring the receivables, and buyer of the receivables is called a factor. An advantage of factoring is that the company selling its receivables receives immediate cash for operating and other needs. In addition depending up on the factoring agreement, some of the risk of uncollectible accounts may be shifted to the factor.

Regardless of the care used in granting credit and the collection procedures used a part of the credit sales will not be collectible. The operating expense incurred because of the failure to collect receivable is called uncollectible account expense, bad debts expense, or doubtful account expense. (warren 2005:320)

2.5.2. Measurement of Uncollectible Accounts Receivable

2.5.2.1. Direct write off method

If an enterprise sells most of its goods on a cash basis, the amount of its expense from bad debts is usually small in relation to its revenue. The amount of its receivables at any time is likely to represent a relatively small part of its total current assets. In such cases, as well as in many small business and professional enterprises, it is satisfactory to delay recognition of uncollectability until the period in which certain amounts are believed to be worthies and are actually written off as uncollectible. (mengistu 2008:133)

A method that makes no attempt to estimate uncollectible account or bad debts Expense at the end of each period; instead, when an account is found to be uncollectible, it is written off directly to bad debts expense this method is generally considered to be inferior to the allowance method (Kermit 1997:287)

2.5.2.2 Writing off a bad debt

When specific accounts are identified as uncollectible, they are written off against the allowance for doubtful account for example after spending a year trying to collect from Jack vale, the fritz company finally decided that his 100 account was uncollectible and made the following entry to write it off. (Kermit 1997:281)

2.6 Problem usually reflected in receivable management

When payments begin to diminish and the accounts receivable grow to unsatisfactory levels, there are a few "usual suspects" in terms of reasons.

Sometimes they occur alone and sometimes they seem to team up to make problem resolution more difficult. (www.studymode.com)

2.6.1 Invoicing system problems

A lack of data integrity, or internal invoicing system inconsistencies, means that problems occur, but are not readily detected by normal management reports. In addition, the system itself may experience problems such as electronic transmissions that appear to have been sent but are in fact locked up in the system. (www.studymode.com)

2.6.2 An overworked or undertrained staff

Radiology billing processes are characterized by endless stacks of paper and few psychic rewards. If the staff adopts an attitude that "I'm doing the best I can" and doesn't ask for help, huge backlogs can occur within a relatively short period of time. In some cases, staff members don't know enough to report problems to their managers or supervisors and, without Communication, problems can fester for a long period of time. Workers without sufficient training are also likely to make errors that result in denied claims and additional rework to correct. (www.studymode.com)

2.6.3 Changes in payer rules

Changes in claims submission parameters will usually result in a new pattern of denied claims. It is important that this information be communicated to management quickly so the problem can be reviewed and addressed, but often there are lags in follow-up. In worst cases, the denials may just be written off and not questioned. (www.studymode.com)

2.6.4 Nonstandard practices and inefficiency

A large number of billing operations do not have formalized, standard processes in their departments. Employees with strong problem-solving and time management skills may still perform well, but other employees develop incomplete, inefficient or "creatively complex" processes that require consistent

error correction or repetition. Even groups with standardized processes must watch carefully for "defaults" as employees attempt to adapt to the demands of different payers or situations. (www.studymode.com)

2.6.5 Lack of management knowledge

The requirements of today's practice manager are diverse and demanding. Those who are undertrained for the current environment or lacking in skills have difficulty identifying trends, solving problems or knowing when to ask for help. Managers in this situation are often working excessively hard just to keep their heads above water and, in the end, continue to fall behind in the day-to-day operations. The result can be a department that loses control of basic functions. (www.studymode.com)

2.6.6 Accounts receivable follow-up

Maintaining control of the accounts receivable requires a consistent effort at all levels. Management must remain vigilant with monitoring reports and staff must work accounts on a daily basis. This focus runs the gamut, from following up quickly on the mounds of daily insurance correspondence to calling payers and patients. Account follow-up activities are time-consuming and often frustrating. This is an especially critical area in terms of training and standardized processes and one where too many practices lose far too much money. (www.studymode.com)

2.6.7 Poor quality of information

When radiology reports don't support the diagnosis and procedure codes, the result is a loss of money-or even worse, a staff that adopts loose "assumption" coding that crosses the boundaries of fraud and abuse. If there is poor communication among billing staff, management and other employees of the company, then poor quality of information can be a chronic and expensive problem. (www.studymode.com)

2.6.8 Electronic processes

While electronic claims submission and remittance have proven to greatly improve cash flow in a practice, they are also areas in which the wheels can fall off operationally. Time after time, an investigation of lagging payments has resulted in the statement, "The computer said the files were sent. We had confirmation from the clearinghouse that the files were sent. But the files were never received." In a practice that relies upon electronic claims submission as a strategic efficiency move, submission failure of several large files over a multi-week period results in significant revenue delays. (www.studymode.com)

2.7 What to do protect unexpected failure from receivable management

The problems mentioned are in themselves not unique and exist at some level in any organization at any given time. They do, however, reinforce the need for strong communication to reduce the impact, or at least minimize the cumulative effect, that occurs when several of these issues surface simultaneously.

The checklist outlined provides the tools for a periodic review of business operations and the goal is to identify and correct potential problem areas before the situation escalates. However, a firm foundation is the best defense, so the following are recommended:

- Develop a management reporting package that, at the minimum, measures collection ratios, days in accounts receivable and amounts written off to collections.
- Review this information monthly with the practice administrator and discuss areas that show troublesome indications.
 - Make sure your manager continues to receive advanced training, has access to resources that enhance skill development and can network with peers about situations occurring in your area.

- Consider hiring an outside consultant with billing process expertise to review your practice processes.

Make sure you employ, at least in a supervisory capacity, one or more staff members who are experienced in billing and collections processes and issues. Even the best practice administrator won't be an expert in all areas of the operation and must be supported with a strong staff.

- If the inevitable crisis does occur-and it will in all practices at some time-work to determine the depth of the problem and then ask for a written work plan to address the issues. The plan should go beyond "hiring more people" to provide some action steps and standardized, written processes.

Regulatory changes, information technology, workloads, training, standardization, people and procedures all of these make managing invoicing operation an evolving, fluid and ever changing landscape. Take proactive steps to identify and monitor the more common problems impacting practice revenue. While not all of the problems can be prevented, they can at least be addressed and corrected in a timely manner that minimizes any negative impact on company employs incomes. (www.studymode.com)

CHAPTER THREE

DATA PRESENTATION AND ANALYSIS

3.1 Data Presentation and Analysis

The researchers gathered data both from primary and secondary data. The primary data gathered from questionnaire, secondary data gathered from the financial policy manual of the company and from the credit agreement and policy. Equatorial Business Group has five branches other than the head office. However, the researchers distributed the questionnaire made only the head office of the finance department.

This research use sensuous method and using percentage tables and descriptive qualitative tools & techniques to analyses it.

3.2 Analysis of Questionnaire

The prepared questionnaire has two parts first part talks about the personal profile of the respondents, the first part has got from 1 up to 5 questions which are related to the personal profile of the respondents and the second part has got from 1 up to 11 questions which are related to the topic. As mentioned earlier the questionnaire was distributed only at the head office of the company and from the respondent point of view the given questions that are related to the topic were responded and analyzed as follows.

Part I

No	Description	Frequency	Percentage
1	Sex		
	Male	6	40 %
	Female	9	60 %
Total		15	100 %
2	Age		
	25 and below	2	13.33 %
	Between 26-35	9	60 %
	Between 36-45	3	20 %
	45 and above	1	6.67 %
Total		15	100 %
3	Position		
	High	2	13.33 %
	Medium	8	53.33 %
	1 st level	5	33.33 %
Total		15	100 %
4	Academic status		
	Diploma	3	20 %
	BA	11	73.33 %
	MA	1	6.67 %
Total		15	100 %
5	Work experience		
	5month - 5 year	8	53.33 %
	6-17 year	7	46.67 %
Total		15	100 %

Based on the research quaternary the above table show the company finance department employees age level are, 2 of them are below 25 years old, 9 of them are between 26-35 years old, 3 of them are between 36-45 years old and the rest 1 employee above 45 years old from total 15 employees.

The sex of 9 employees is female and the rest 6 are male from the total 15 employees.

On the other hand in positional level from total 15 employees 2 of them are in high level, 8 of them are in medium level and the rest 5 are in 1st level.

In their work experience 8 employees from total 15 works in the company from 5 month to 5 year and the rest 7 employees are work 6 up to 17 years.

Finally in their academic status 3 employees have Diploma, 11 employees have BA degree and the rest 1 employee has MA degree from total 15 employees.

Therefore we can say most of the company employees are female, young, have BA, medium working passion and they work for long period of time in the company.

Part II

Table2. Internal control over receivables

Description	V. Poor		poor		medium		Good		V. good		Total	
	FR.		FR.	%	FR.	%	FR.	%	FR.		FR.	%
How do you evaluate the internal control system over receivables in your company?	-	-	1	7%	8	53%	6	40%	-	-	15	100%

From total 15 respondents, 1 respondent say the internal control system over receivable is poor, 8 respondents says internal control system over receivable is fair, and the rest 6 respondents says internal control system over receivable is good.

Based on the respondents answer the company has internal control system over receivable and the controlling system in percent is medium, but the respondents answer in percent show there is a gap in applicability of internal control system over receivable.

Description	FR.	%
Does the company have a collection department independently to follow-up receivables?		
Yes	15	100%
No		
Total	15	100%

100% of respondents respond the company has a collection department independently.

The respondents answer show the company has collection department independently to follow up the receivables that means most of the company sales are on credit and having collection department is essential, because receivable account need full follow-up.

Table 4. Communicate or contact

Description	FR.	%
Does the company communicate or contact with the credit customers?		
Yes	15	100%
No		
Total	15	100%

100% of the respondents say the company communicates with credit customers; by using phone, e-mail, letter, own person and contact person to remind them before the due date of two or three days.

Communication with credit customers is necessarily to remind the payment due date because some customer may not pay their credit on time they rather prefer to invest their money for other business.

Description	V. Poor		poor		Medium		Good		V. good		Total	
	FR	%	FR	%	FR	%	FR	%	FR	%	FR	%
How do you evaluate the company giving of credit limit to the customers?	-	-	2	13%	9	60%	4	27%	-	-	15	100%

From the given response 27% respondents said that it's giving of credit limit to the customers is good, 60% of the respondents says it is medium and the rest 13% respondents say it is poor.

The company credit limit in percent is medium and this credit limit is different from customers to customer. Because different customers have different background in credit so the company refers their background and its own structured policy and procedure that related with the credit limit or guaranty procedure. It decreases doubtful account.

Table 6. Credit term or agreement

Description	FR.	%
Does the company have specific credit term or agreement?		
Yes	15	100%
No	-	-
Total	15	100%

100% of respondents said that the company has credit term or agreement. But this might not be mandatory for very close and frequent customers.

Based on the percent of respondents the company has specific credit term or agreement. This will settle the conflict that may arise with the customer and if the conflict is occur in the same time it can be evidence.

Description	FR.	%
Is statement of account receivable strictly prepare and sent to the debtors?		
Yes	15	100%
<i>No</i>	-	-
<i>Total</i>	15	100%

100% respondents said that statements of account receivable is prepared and sent to the customer.

The statements of account receivable sent to the debtor for the purpose of reconciliation and confirmation of their debts. If there is a dalliance, the dalliance of sending statement affects the collection due date.

Table 8.Account receivable aging

Description	FR.	%
Does the company prepare an account receivable aging report?		
Yes	15	100%
<i>No</i>	-	-
<i>Total</i>	15	100%

For the above question 100% respondents respond that the company prepares an account receivable aging report.

This is useful and mandatory for the company to follow up receivable account, control credit customers and estimate doubtful account.

Table 9.Assess credit customers

Description	V. high		High		Medium		Low		V. Low		Total	
	FR	%	FR	%	FR.	%	FR.	%	FR	%	FR	%
How do you assess that the credit customers pay to according to their agreement?	1	7%	9	60%	2	13%	3	20%	-	-	15	100%

From the respondents given answer 60% respondents said that the credit customer pay according to their agreement is high, 7% of respondent said very high, 13% of respondents said medium and the rest 20% respondents said that the credit customer pay according to their agreement is low.

This means more than 60% respondents believe the credit customers pay according to their agreement but there is also a gap, because 13% from the total respondents said it is medium and 20% from total said it is low so the company credit agreement varies from customer to customer.

Table 10.Change to promissory notes

Description	FR.	%
Does the company change an account receivable to promissory notes receivable?		
Yes	6	40%
<i>No</i>	9	60%-
<i>Total</i>	15	100%

For the above question 60% of the respondents reveal that the company does not change an account receivable to promissory notes receivable the rest 40% respondents said the company change an account receivable to promissory notes receivable:

It is advisable the company change account receivable to promissory note, it can force the customer to pay but is not applicable for those customers that go to declines.

Table 12. Follow-up to write-off

Description	FR.	%
Is there a procedure that follow-up to write-off uncollectible?		
Yes	15	100%
No	-	-
Total	15	100%

For the above question 100% of the respondents said that there is procedure to write-off uncollectible, the finance division transfers to the responsible department to take a legal action for the customer.

This will clear the company collectable account receivable, avoid account receivable over estimation.

3.2.2 Reasons for uncollectability

As per responses obtained from the Questioners, there are many reasons for the uncollectability of Account receivable. Among the many critical reasons this are the following.

- Customer's unwillingness to pay
- Business shutdown
- Pre matured death

3.2.3 Techniques used by Equatorial Business Group

The techniques and efforts made by the company to collect its account receivable are found to be appropriate but the most common are:-

- To notify the customer by calling before the payment day
- To make a time table that comforts the customer

Postdated Check

3.2.4 Account Receivables turn over

Account receivables turn over measures the liquidity of firm's account receivables. The higher the account receivable turn becomes, the better it is for the company.

This ratio indicated how many times and how rapidly receivables are converted in the cash during a year.

Account receivable turn over = Net sales

Account receivable

Table 13 Account receivable Ratio

	Year				
Description	2009	2010	2011	2012	2013
Net sales	130,889,450	92,667,420	194,894,027	198,267,661	165,004,261
A/R	76,704,723	67,324,343	71,894,671	102,553,448	105,400,321
Ratio	1.71	1.38	2.71	1.93	1.57

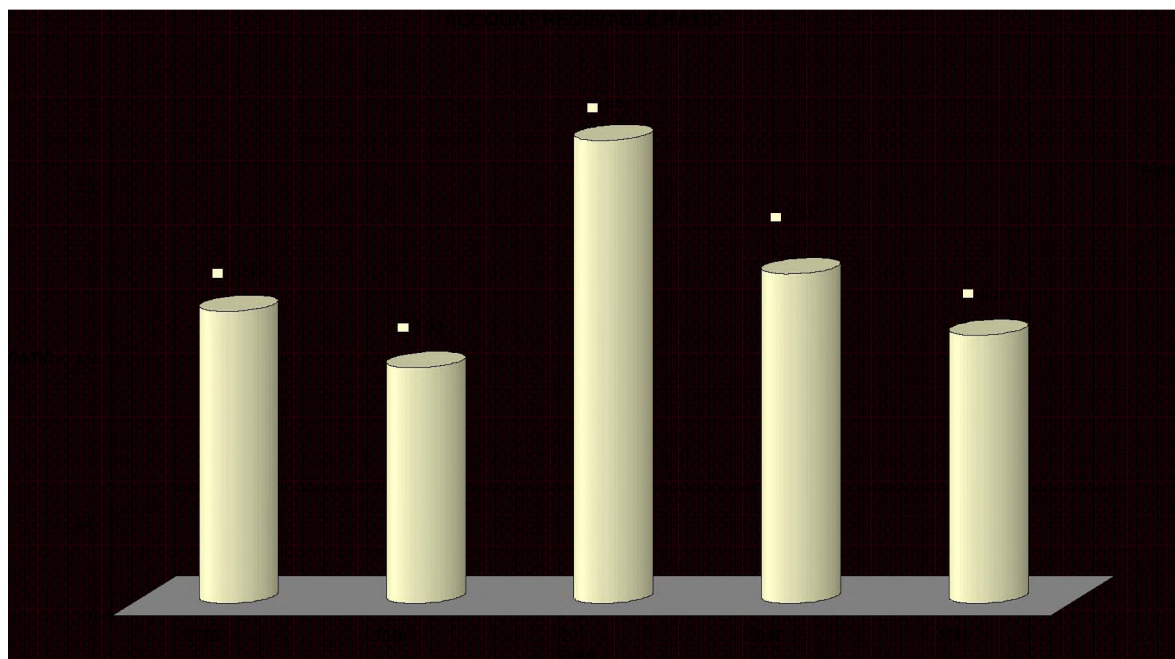


Figure1.

As it is shown in the above presentation, the ARTO is not constant rate; the ARTO is fluctuating year to year. Thus, the company experiences increasing in the receivable balance without corresponding increase in sales.

3.2.5 Average Collection period

It is useful in evaluation credit and collection policies. It represents the average length of time a firm must wait to receive cash after making sales. The shorter the average collection period the better it will be. In addition, it's preferable for average collection period to decrease from time to time. But, this thing is not true in the case of EBG Company.

Table 14 Average Collection period

	Year				
	2009	2010	2011	2012	2013
ARTO	1.71	1.38	2.71	1.93	1.57
ACP=360/ARTO	211	261	133	187	229

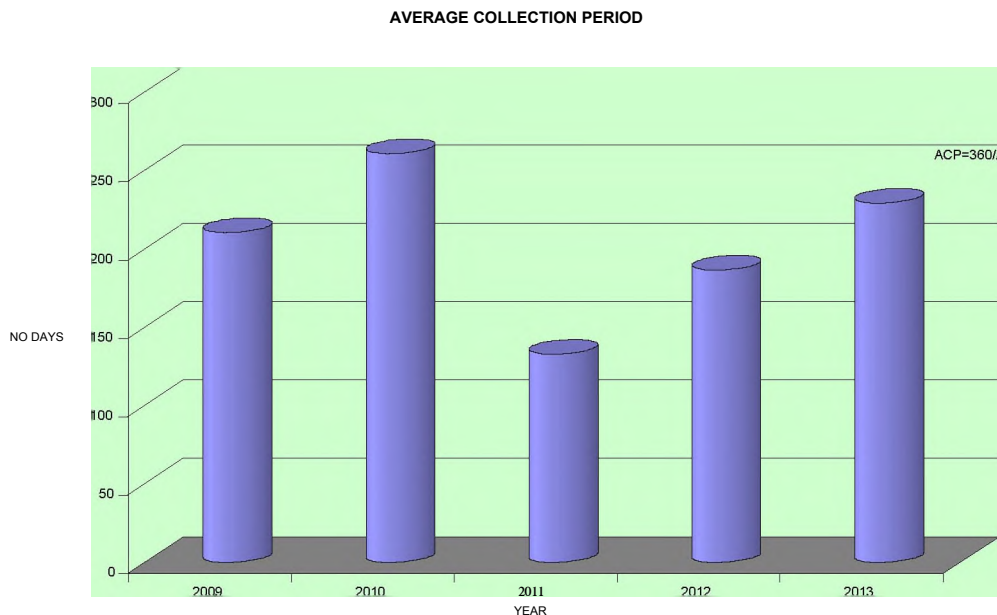


Figure 2

As it can be seen from the above chart presentation the average collection period is increasing from about 211 days in 2008 to about 229 days 2013. Based on the chart there are some accounts which are long outstanding and the firm is tries all effort to make those credits to be collected.

The company can decrease the average collection day by avoiding the problem mentioned on statement of the problem.

3.3 Major Findings

Based on the analysis made, the researchers tried to find out some major points that are basically related with the strength and weakness of internal control over receivables in Equatorial Business Group.

Strength

- The company has a structured policy and procedure for internal control of receivables.
- Takes a legal or other action like, by forbidding the debtors to purchase on credit base on other time for those customers who do not pay on their due date and according to their agreement especially in the pharmaceuticals and medical supplies sector.
- Write off of receivables is done based on legally when the debtor gives evidence.
- The company has a collection department independently.

Weakness

- Sometimes credit is given by the willingness of the person without detailed study of the customers' credit facility.
- There is a delay in sending of statements of account receivable.
- There is a delay in collection of cash.
- Change account receivable to promissory notes receivable is not enough in the company

CHAPTER FOUR

SUMMARY, CONCLUSION AND RECOMMENDATION

4.1 Summary

This research focus on internal control system over receivable in the case of Equatorial business group, the company finance department organized by young staff, from this young staff majority of them is female, there academic status is organized by well-educated individuals most of them have bachelor degree.

The company has separate receivable department, this department control receivable accounts and follow the receivable accounts. This department control receivable in structured credit policy and procedures. To contact with credit customer, sending statement of accounts at least quarterly, making a credit limit, use an aging account receivable report to recognize bad debts.

Company has to make an evaluation of its customer's financial strength and business capacity. In the past many customers of the company were found to be not liquid and were unable to settle their debts which they owed to Equatorial business group.

4.2 Conclusion

Based on the data analysis made in the previous chapter the following conclusion are drawn

The company have separate responsible department to follow up receivable account. This department use deferent method to collect receivable account on time. Prepare and send statement of account receivable also this department responsibility and follow their respond in the same time check the background of the customer on credit base.

The company has specific credit term or agreement in this credit term or agreement describe the payment due date, the payment condition, discount and what can be the next credit settlement.

The company have clear customer data base. From this data base the company gets information about the customers credit history, financial capacity, continuity in the business, payment on the past credit are collected in the data base. This data can solve a lot of problem because occur and decrease the company doubtful account.

4.3 Recommendation

According the gathered data from both primary and secondary data of the company and the analysis shown the researchers would like to recommend on the following points over the internal control of receivables.

Due to absence of strict follow up of this receivables policy and procedure and lack of management attention, the company is unable to collect account receivable on time. Since most of its sales on credit, it is preferable that if the company has collect receivable account on due date this helps the company finance problem, effectively.

The statements have send to the debtor after the work is done, because the customers can get information about their debit and they can pay the payment on due date.

If the company selects those customers which are credit worthy, its receivable will be fully paid. Therefore, it's better for Equatorial Business Group to decrees doubtful account and gives credit only to those customers which are credits worthy.

It is better for this company to require additional guarantees from its customers especially for big amount of credit sales.

Credit sales only be processed based on the credit policy of the company.

Exchange statements of accounts with debtors at least quarterly for the reconciliation and confirmation of balances.

The company sales and gives service on credit base to its customer have to be on granting policy and procedures. Credit may granted for those customers who has a legal business license, the assets of the company should not be under collateralized and as the same time the company should not be approximate to loss. The company does not give credit sales even the above stated granting procedures are fulfilled, it starts to give credit after knowing of very well that the debtor can pay its debt, these is practiced based on their purchasing activity on cash base.

Use postdated check for very active and known customers.

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St' Marry University Accounting Department

Research quaternary in Equatorial Business Group Receivable account

This research quaternary prepared by St' Marry University Accounting Department Students, fulfillment of BA Degree. It designed for the purpose of understanding a research on the topic "internal control over receivable" you are kindly requested to cooperate by giving response for the following questions the researches respect fully your genuine reply to the question because it show the research strength.

Questioners for E.B.G finance department manager and employee

We thanks in advance for your cooperation!

Your name is not necessary!

I. Personal information

1. Age below 25 ☐ 26-35 O 36-45 O 45 & above Q
2. Sex F ☐ M ☐
3. Position high Q medium Q 1st level Q
4. Work experience _____ month _____ year
5. Academic status
Certificate ^A Diploma BA MA & above ☐

II. Main Questions

1. How do you evaluate the internal control system over receivables in your company? **V. Poor** ^{|A|} **poor** **fair** ^{|A|} **Good** ^{|A|}
2. Does the company have a collection department independently to follow-up receivables? **Yes** **No** Q
3. Does the company communicate or contact with the credit customers?
Yes J **No**

If the answer is yes describe the method.

4. How do you evaluate the company giving of credit limit to the customers?

V. Poor

poor |A|

fair |A|

Good |A|

5. Does the company have specific credit term or agreement?

Yes d

No d|

If your answer is yes describe it_____

6. Is statement of account receivable strictly prepare and sent to the debtors?

Yes □

No□

7. Does the company prepare an account receivable aging report?

Yes □

No □

8. How do you assess that the credit customers pay according to their

agreement? **V. High |A|**

High

|A| low|A|

V.Low |A|

9. Does the company change an account receivable to promissory notes
receivable? **Yes I**

No ☒

10. Is there a procedure that follow-up to write-off uncollectible?

Yes □

No □

If the answer is yes describe the procedures_____



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